



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the Coeur d'Alene Resort Hotel in Coeur d'Alene, Idaho at 8:30 a.m., Pacific Daylight time, June 25, 2002. The Board holds one of its regular meetings each year at a location outside of the Boise area. The following members were present:

Jody B. Olson
Susan K. Simmons
Pamela I. Ahrens

Trustees Dennis L. Johnson and J. Kirk Sullivan were absent and excused. Executive Director Alan H. Winkle, Deputy Director John Doner, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Investment Officer Richelle Sugiyama were also in attendance. Other persons attending portions of the meeting were:

Kari Caven	PERSI – CDA office
Jan Murphy	PERSI – CDA office
Dan Carscallen	N. Latah County Hwy Dist.
Dan Marsh	City of Lewiston
Dale Crandall	CDA School Dist # 271
Gayle Crandall	CDA School Dist # 271
Phil Owens	DHW – IPEA Member
John Goedde	Idaho State Senator
Paul Saylor	CS Capital Management, Inc.
John McClelland	CS Capital Management, Inc
Mario Gianinni	Hamilton Lane Advisors
Paul Yett	Hamilton Lane Advisors

CHAIRMAN'S WELCOME

Chairman Olson welcomed visitors to the annual out-of-Boise meeting of the Board and introduced guests and Board members.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the May 28, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Mr. Maynard advised the Board that Capital Guardian has been fully funded and fits very well into the portfolio. Unless the Board wants to re-institute a bias to small cap investments, he does not recommend hiring of another manager at this time. The liquidation of the Columbus Circle has been completed, and Capital guardian is now fully funded. He commended Investment Officer Richelle Sugiyama and Mellon Transition Management Services for a very efficient and cost-effective liquidation.

Private Equity Report – Paul Saylor and John McClelland discussed their report dated June 25, 2002, which had previously been furnished to the Board. The definition of real estate has been expanded to include private equity, public equity, private debt as well as international equity and debt. In response to a question from Trustee Simmons as to whether increased interest of other public funds in real estate will raise the cost of private equity deals, Mr. Saylor said he believes patience will pay off and we can still get “under the radar” and find good deals. He told the Board there are a lot more products on the market and pressure to get the money invested, but he recommends staying the course and keeping with our current philosophy. Chairman Olson asked if the good real estate deals actually offset the losses in the portfolio. Mr. Maynard responded that the offset is there, but the deviation between winners and losers is not as large as in private equity. Mr. Saylor assured the Board that the criteria and process of selection of real estate deals should prevent very bad losses in real estate deals. Mr. Maynard's intent is to bring the allocation to real estate up to the \$170 million level which is about 5% of our portfolio. He also noted that in contrast to the other funds, we do not include the Idaho commercial mortgages or the mortgage-backed securities allocations in our real estate allocation.

Mario Gianinni reviewed the Hamilton Lane report showing where he sees potential gains and where he sees issues in the portfolio.

Monthly Portfolio Mr. Maynard discussed his investment report dated June 22, 2002, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

The modest nature of the economic recovery is becoming clear, and the weak (at best) prospects for corporate profit growth continue. There also does not appear to be any realistic prospects for a quick turnaround in investor sentiment over the next couple of months. As a result, the equity markets are down another 3%-

6% this month and are off around 12%-13% for the fiscal year to date.

Given the overall dismal state of the markets, PERSI's performance has been either as or better than expected, with TIPS bonds and real estate being the best performers, and with Mountain Pacific and emerging markets managers being the best equity performers.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. We have essentially completed the transition of the Columbus Circle account with the funding of the Capital Guardian account.

Mr. Maynard's report stated the current value of the fund as of June 22, 2002 was \$6,290,228,199. As of that date, the fiscal year-to-date return percentage is negative 7.3 and the month-to-date returns are negative 4.2

Mr. Maynard said since the 18th, the market has continued to lose ground and we are now down 7.3% with the fiscal year ending June 30. However, we are doing well relative to our benchmarks. The economy is still healthy, but the stock market is cut off from the economy. There are three factors promoting this disconnect. 1) earnings are not coming back as people expected; 2) the perception of risk in the market has been heightened by accounting scandals; and 3) there is a question as to how much the market will grow in the future; it doesn't look like it will come roaring back in the short term. Noting that half the loss occurred in the last month, Trustee Ahrens asked why Mr. Maynard does not expect it to gain back the returns in a short period of time. Mr. Maynard reiterated that the three factors are probably not going to turn around in a short period of time, unless one of the factors surprises us. However, we can expect the long term (10 years) to be comparable to the last ten years with a 9-9.5% annual growth.

Gain Sharing Allocation Dispute: PERSI member Mark Taylor addressed the Board regarding his complaint that the manner in which Gain Sharing was distributed cost him nearly 25% of his allocation. Trustee Simmons asked staff for further research on a case cited by Mr. Taylor. The Board took the issue under advisement and will continue the deliberations at the July meeting.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed his memorandum to the Board dated June 18, 2002, which provided an overview of fiscal issues. Audit control testing is beginning and the actual audit field work is scheduled for August. In the current environment, it is important to note that the Deloitte and Touche audit team is given complete access to PERSI's financial and member data during the course of the audit. This is the final year of the existing contract with Deloitte and Touche for audit services. We anticipate issuing a request for proposal this fall to solicit bids for audit services for the fiscal years 2003 through 2007. He also

reviewed the Administrative and Portfolio Expense Reports that had been provided to the Board earlier for their examination. He expects budget savings of about 4%.

EXECUTIVE DIRECTOR

CEM Benchmarking Presentation: Deputy Director John Doner provided an overview of the Cost Effective Measurement Benchmarking process in which PERSI is participating. PERSI is one of the top public pension funds in the US in many areas and delivers a high level of customer service with a higher workload and a lower cost than the average.

Contribution Rate Discussion: Mr. Winkle continued the discussion of the contribution rate setting process that began last month. The decision whether to raise contribution rates to meet statutory requirements will be made in September or October meeting, but the effective date could be as late as January 1, 2004. Should the markets improve before then to bring the unfunded liability back into line with the requirements of Idaho law, the Board could then decide not to implement the increase. Chairman Olson asked Mr. Winkle to provide the presentation slides to the trustees who were not present at the meeting. Mr. Winkle will forward copies to all the PERSI trustees.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. A survey of members is being planned to improve our mechanisms for getting feedback from our members regarding our level of service and their need for additional service. Board members asked to see the design of the survey before it is sent out.

FUTURE BOARD MEETINGS

Tuesday, July 23, 2002, 8:30 a.m., Boise - PERSI office
Tuesday, August 27, 2002, 8:30 a.m., Boise - PERSI office
Tuesday, September 24, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, the meeting was adjourned at 11:30 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director